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SIPDIS

SENSITIVE

STATE FOR E, EUR/SE AND EB
TREASURY FOR OASIA - MILLS AND LEICHTER
NSC FOR QUANRUD AND BRYZA

E.O. 12958: N/A
TAGS: EFIN ECON PREL TU
SUBJECT: TURKEY MARKETS ENJOY A QUIET BUT POSITIVE WEEK

¶1. (U) Turkish markets rose steadily, if not spectacularly, this week. The lira strengthened from TL 1.65 million/dollar at the end of last week to TL 1.60 at the close of this morning's trading session. Meanwhile, yields on the benchmark 4/28/04 t-bill fell from 64.39 to 57.72 percent, and the stock market rose about 6.5 percent to 11,229.

¶2. (SBU) Analysts attributed this week's improvement to a reduction in anxiety over Iraq -- and reports that Turkey's crucial tourism industry may therefore rebound quickly -- combined with investors more fully pricing in IMF and U.S. assistance. Investors remain concerned about the government's commitment to the reform program, along with its replacement of key economic technocrats with party loyalists, but are now less concerned about the government's ability to roll over its domestic debt in the short-term than they were 3-4 weeks ago.

¶3. (SBU) Senior government officials are continuing their positive spin campaign, with Prime Minister Erdogan announcing today that Turkey's exports rose 34.5 percent (through April 15) compared to the same period last year, and might reach as high as $50 billion for the year. Separately, Finance Minister Unakitan said econoimc indicators suggested the economy had begun to improve, though he provided no details. (Note: Treasury U/S Oztrak, who will leave office today, told us earlier in the week that the economy appeared to have weakened significantly in the second half of March, perhaps because of the Iraq war, but that Treasury hoped it would quickly rebound.)

¶4. (SBU) Comment: Markets have improved considerably since their lows on March 24-25 (just before the announcement of the $1 billion in potential U.S. assistance), when t-bill rates hit 73.5 percent and the lira was trading at TL 1.75 million/dollar. On the other hand, t-bill rates remain several percentage points higher than they were during the post-election rally in November, and in fact are higher than they were during the April 2002 market rally. The question remains whether the government can instill enough market confidence to bring interest rates down further and -- most importantly -- avoid the mini-shocks that keep sending rates back up.
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